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SUBJECT: TUNISIA ECONOMIC HIGHLIGHTS

REF: TUNIS 1741

11. (U) This cable contains highlights of recent economic developments in Tunisia in the following areas:

- 1A.** Prime Minister Discusses Recent Economic Reforms
- 1B.** Adoption of New Economic Laws
- 1C.** National Strategy for a Digital Economy
- 1D.** Tunisia Ratifies International Sugar Agreement
- 1E.** Wheat Crop Yield Expected to Fall
- 1F.** World Bank Loans to Tunisia to Fund Education, Irrigation Projects
- 1G.** Belgian Loan to Tunisia to Finance Taparura Project
- 1H.** European Investment Bank Loan to Tunisian NGO Enda Inter-Arabe

1A. PRIME MINISTER SPEAKS WITH AMBASSADOR HUDSON
ABOUT ECONOMIC REFORMS

12. (SBU) On July 18, Tunisian Prime Minister Ghannouchi told Ambassador Hudson that two new economic reforms had taken effect and that he hoped they would spur investment and business. The first item reforms Tunisia's Customs code, harmonizing registrations with world standards to streamline customs procedures. The second item reduces the tax rate on corporate profits from 35 percent to 30 percent in order to increase investment in regional development zones. According to the media, the tax cut renders Tunisia's rate on par with average rates within the European Union (France 35.9%, Germany 38.5%, Italy 37.3%).

13. (SBU) Ghannouchi also said GOT was working to make the Tunisian dinar completely convertible. Currently, the Tunisian dinar is a soft currency convertible only for commercial and investment transactions. GOT has worked since 1987 for full dinar liberalization. Comment: Full convertibility of the dinar has been an extremely slow process. GOT is concerned about the secondary effects of full convertibility (capital flight, devaluation of the dinar, inflation, loss of control, and concern that the Tunisian economy is not strong enough to sustain full convertibility of the dinar). GOT's total control over

fiscal measures and financial transactions has worked well so far and has helped them maintain a relative equilibrium. Even though full convertibility would attract more foreign direct investment, there is still significant resistance within the GOT to speed the process. End comment.

1B. TUNISIAN CHAMBER OF DEPUTIES Ratifies ECONOMIC LAWS

14. (U) On July 18, the Chamber of Deputies Ratified the Export Credit Guarantee Agreement between the United States and Tunisia. The agreement is part of the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation GSM-102 program, which helps ensure that credit is available to finance commercial exports of U.S. agricultural products to developing countries. The agreement will help finance Tunisian imports of U.S. agricultural products, notably vegetable oil. At an amount of 20 million dollars (27.3 million Tunisian dinars), the credit is repayable over 3 years.

15. (U) The Chamber also ratified the International Convention on Olive Oil and Table Olives adopted in Geneva April 29, 2005 and signed by Tunisia on November 15, 2005. Tunisia is a member of the International Olive Oil Council of the United Nations Conference on Trade and Development (UNCTAD).

16. (U) Tunisian Agriculture Minister Haddad specifically noted that Tunisia's imports of vegetable oil from the U.S. at a price below that of olive oil helps to preserve the buying power of Tunisian consumers. He added that Tunisia's exports of olive oil represent an important market at a value

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of 700 million dinars per year, even in an international market where demand is declining.

1C. COUNCIL OF MINISTERS EXAMINES NATIONAL STRATEGY FOR DIGITAL ECONOMY

17. (U) Tunisian President Ben Ali presided over a special Ministerial Council on July 19 to discuss Tunisia's national strategy to promote a digital economy. The Council first reviewed its achievements in improving its digital economy: information technology networks, human resource development, and ways to improve the competitiveness of employees in these fields. The Council also reviewed future tools and objectives needed to modernize Tunisia's workplace, export potential, and investment climate. The Council mentioned several ways to achieve its objectives, particularly through: 1) integrating the public and private sectors in activities related to the digital economy; 2) increasing the work force of small and medium-sized enterprises (SMEs), with the government paying 25% of the salaries earned by newly-hired workers with graduate degrees for three years; 3) supporting businesses working in the digital economy in international quality systems; and 4) creating a High Commission on the Digital Economy. President Ben Ali asked the Council of Ministers to prepare a bill finalizing this strategy.

1D. TUNISIA REVIEWS INTERNATIONAL SUGAR AGREEMENT

18. (U) On July 12, the Council of Ministers reviewed a bill which, if approved, would bring Tunisia into compliance with the 1992 International Sugar Agreement. According to the local press, compliance with the agreement would allow Tunisia to have a say in the policies of the UN's International Sugar Council, in which each member has one vote, and would reportedly create regional opportunities to promote and improve Tunisia's sugar industry.

E. TUNISIA'S WHEAT CROP YIELD EXPECTED TO FALL IN 2006

19. (U) Media reports indicate that Tunisia's 2006 overall wheat crop is likely to reach only 1.1 million metric tons. This is 32% lower than the 2005 overall wheat crop of 1.6 million metric tons. The lower yield is reportedly due to drought during the March and April growing period.

F. WORLD BANK LOANS TO TUNISIA FOR IRRIGATION,
EDUCATION PROJECTS

10. (U) The World Bank and Tunisia signed an agreement on July 20 in which the World Bank granted two loans to Tunisia in the amount of 142.8 million dollars. The first loan will finance a project to support the quality of higher learning and will support the GOT's own project to improve economic competitiveness in a knowledge-based society. The second loan will finance a project in western Tunisia to improve the quality of water used in irrigation over a sustainable period of time.

G. BELGIAN LOAN TO TUNISIA TO CO-FINANCE
TAPARURA PROJECT

11. (U) On June 25, Tunisian Minister of Development and International Cooperation Jouini and Belgian Minister of Finance Didier-Raynders signed an accord during the two-day Facility for Euro-Mediterranean Investment and Partnership (FEMIP) conference in which Belgium agreed to provide Tunisia with a 15.05 million euro loan. Repayable over 20 years with

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a 2% interest rate and a 10-year grace period, the loan is to co-finance an environmental project called 'Taparura' near Sfax. The 'Taparura' project includes anti-pollution efforts along the north coast of Sfax, rehabilitation of Sfax beaches, and terraforming new land along the sea to extend the city's oceanfront. With a total cost of 98 million dinars, the 'Taparura' project will be co-financed at a price equal to 52 million Tunisian dinars by a prior loan given by FEMIP on July 28, 2004.

12. (U) The project plans to reclaim 400 hectares of land and to excavate phosphogypsum, a pollutant that covers an 80 hectare area. Sand with a volume of 6.9 million squared meters will be put down to cover the area and to stabilize the coastline. Other parts of the project include constructing a 3.3 km canal to drain rainwater and protecting the site against waves and erosion. Some 260 hectares of the land will also be set aside to create parks, housing, offices, and tourist and recreation sites.

H. LONG-TERM LOAN TO ENDA INTER-ARABE FOR MICROFINANCE
PROJECTS IN TUNISIA

13. (U) On June 25, the European Investment Bank (EIB), through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), signed with Enda Inter-arabe a loan in the amount of 1.25 million Tunisian dinars, repayable over eight years at a rate of 2.5% during the two-day FEMIP Conference. This loan will allow Enda Inter-arabe to extend its micro-credit operations in the economically-depressed areas of Tunisia.

14. (U) The financial agreement, the first in Tunisia between the EIB and a non-governmental organization (NGO), was signed by M. Philippe de Fontaine Vive, the EIB's head of FEMIP, and Essma Ben Hamida, co-director of Enda Inter-arabe. The

loan will allow co-financing of microenterprises in an effort
to reduce poverty through private initiatives in Tunisia.
The EIB loan follows a loan of 2 million Tunisian dinars
given by Oikocredit, the world's largest private microcredit
investment company, signed at the beginning of June 2006.

BALLARD